Canada Mortgage and Housing Corporation
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A Study of the Residential Renovation Industry in Nova Scotia

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Canada

A STUDY OF THE RESIDENTIAL RENOVATION INDUSTRY IN NOVA SCOTIA

PRELIMINARY RESULTS

Prepared with the assistance of the
Nova Scotia Home Builders' Association
and the
Province of Nova Scotia

Research Division
Canada Mortgage and
Housing Corporation
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PRELIMINARY RESULTS

A. Introduction

This report present the preliminary results of an in-depth study of the residential renovation industry in Nova Scotia. The study was funded by the Canada Mortgage and Housing Corporation (CMHC) with the active participation of the Nova Scotia Home Builders' Association (NSHBA) and the Province of Nova Scotia. The study was undertaken by the DPA Group of Fredericton, New Brunswick.

B. Purpose

The study was undertaken to develop the first in-depth provincial profile of the residential renovation industry in Canada. The study was designed to identify the characteristics of individuals and firms active in the industry and to generate information on the issues which industry members face. In addition, the study produced information about the size of the renovation market in Nova Scotia and the reaction of the consuming public to the performance of the industry to date.

C. Nature of the Study

The study was undertaken in three separate parts. The first was a survey of households in Nova Scotia to determine the scope and extent of residential renovation activity. The second was the development of a comprehensive data base of renovation industry participants and a survey of them. The survey was designed to produce a profile of characteristics and activity patterns in the industry. The third part was a series of case studies with a group of individual residential renovation firms across Nova Scotia. The reponses from these case studies were used to supplement and expand on the larger industry survey.

The household survey consisted of a telephone administered questionnaire. It was completed with 1 447 homeowner households across Nova Scotia.

Telephone numbers for the survey were generated by a computerized program which selected a representative sample on the basis of telephone exchanges. All respondents were guaranteed anonymity.

The data base of participants in the renovation industry was compiled from the yellow pages of telephone directories in Nova Scotia. The listing included firms advertising themselves as renovators and firms advertising as subtrades which are connected with residential renovation work. Some 2 894 firms were identified in this way. An additional 240 potential participants were also identified through such sources as classified advertisements, building permits and discussions with building inspectors and provincial officials. It is estimated that 75% of the participants in the residential renovation industry in Nova Scotia were identified in this way.

The 3 134 companies were all contacted once by telephone to verify their existence and determine whether or not they worked in residential renovation. This resulted in the identification of 1 656 businesses active to some extent in the industry. From this latter group a sample of 488 firms was selected for the survey. Questionnaires were mailed to all firms in the sample and telephone calls were made to all of them to obtain the responses. Up to five call backs were made. The response rate was 21 per cent. This result is low and, as a consequence, the information obtained cannot necessarily be generalized to the industry with any degree of condifidence. The information can, however, be treated as an indication of the nature of the residential renovation industry in Nova Scotia and its patterns of activity.

Finally, the case studies were conducted through personal interviews with twelve members of the industry from all parts of Nova Scotia. Individuals contacted represented a range of firm sizes and specializations. The interviews built upon issue areas identified in the larger industry survey.

D. Results of the Survey of Homeowners

This survey was designed to determine the scope and variety of residential renovation activity in Nova Scotia and to identify the types of contractors who perform it.

The survey found that 44% of respondents undertook some renovation activity in 1985 and that renovation activity was wide-ranging across the province. The incidence of responses by county ranged from 26% to 56%. Estimates of the value of renovation work performed in 1985 total $282 million. Similar levels of work were reported to be planned for each of 1986 and 1987.

The survey found that 80% of the work performed was handled by full time "qualified tradesmen" during normal working hours. Only 2% of the work was reported as having been done by "unqualified" renovators, mainly painters. These results should be treated with some caution to allow for errors in judgement as to "qualifications" on the part of respondents.

Satisfaction with work performed was high. Eighty two per cent of the respondents rated the quality of the work as "very good" to "excellent". Here again, these judgements may be open to some question, but they do indicate a definite lack of dissatisfaction. The highest levels of dissatisfaction were expressed about work performed by plumbers, landscapers and roofers.

Respondents reported that they undertook a significant amount of their own renovation work. Over 50% of them did all of their own work in 1985 and 50% reported they intended to do so for work they has planned for the future. These results were not restricted to owners of particular dwelling types, market values or geographic areas. The study estimated that the labour value of this self-help renovation was in the range of $60 to 75 million. By comparison, only 25% of respondents reported doing none of the work themselves.

Respondents relied overwhelmingly on recommendations from relatives and friends (70%) and other contractors (7%) when selecting a contractor. The implications for business success on the ability of contractors to produce satisfactory work are therefore obvious. Respondents in Metro Halifax and those with homes valued at over $100 000 were most likely to choose a contractor from sources other than a word-of-mouth referral.

Respondents reported that the type of renovation work performed fell into four categories: interior painting and wallpapering (25%) with an average expenditure of $2 940; other interior work such as refinishing or adding rooms (26%) with an average expenditure of $5 492; exterior work (37%) with an average expenditure of $5 506; and improvements to their property (12%) with an average expenditure of $4 373.

Nine per cent of respondents reported using government programs to finance their renovation work. A higher proportion of public assistance was used by respondents from Cape Breton Island and Western Nova Scotia, owners of older dwellings, and those whose homes had market values estimated at less than $40 000.

The type of renovation performed varied by the age of the home. Improvements to property such as landscaping were concentrated heavily in newer homes. Exterior work peaked at roughly 15 year intervals from the construction of a home. Most interior painting occurred in homes 6 to 25 years old; basement recreation areas were concentrated in homes 6-10 years old; recarpeting and new floors were concentrated in homes 11-15 and 36-40 years old; and remodelling was concentrated in homes 11-20 and 36-40 years old.

The results indicate that, as has been found in surveys in Ontario, the renovation industry is not restricted in its market to older homes but that significant amounts of work take place in units less than 10 years old.

E. Results of the Survey of Renovators and Case Studies

The responses of the 100 respondents to the survey of renovators revealed the following results:

1. The Nova Scotia residential renovation industry is highly fragmented. Only 25% of surveyed firms do most of their work in residential renovation. Approximately 36% of respondents indicated that they practice another profession. Work activity varies somewhat by county with differences occuring between the work characteristics of firms in Halifax County and those in other counties.

2. Work backgrounds of renovators in Nova Scotia vary widely; 32% of respondents has previously worked in professional or business fields and only 26% had worked in areas directly related to renovation.

3. Most firms are sole proprietorships or incorporated firms - 42% and 50% respectively.

4. Nova Scotia firms tend to be small, averaging around 4 employees. Around 20% are one-person operations.

5. Approximately half of renovators do not maintain an office.

6. On average, renovation firms have been in business for fifteen years.

7. Most renovators entered the field because they wanted to be their own boss or because they liked the work.

8. Most work is done for private households.

9. Projects are usually confined to the firm's own town or city.

10. Firm revenues ranged from $500 to $4 000 000. Most one person firms made less than $25 000.

11. Labour charges account for approximately 42% of firm revenues. Materials and overhead charges account for 45% and 7% respectively.

12. 27% of renovators felt that renovation sales had declined between 1985 and 1986, however only 14% expected sales to decline in the next year. Renovators who did most of their work in the residential renovation field were less optimistic about future levels of activity than were other renovators.

13. 56% use contracts, most of these having written guarantees. Over half of surveyed renovators felt that a standard industry contract should be available for residential renovation, and 83% of renovators would use it if it was made available.

14. Almost half of the respondent firms have been involved in work which is subsidized by government assistance grants.

15. Most firms (approximately 74%) do not belong to a construction/ renovation association.

16. Most renovators (65%) obtain their supplies from a wholesaler/ distributor or building supply dealer and pay for them with cash (30%) or on an account basis (68%). Approximately 40% of respondents obtain at least some of their materials directly from manufacturers.

17. The most important sources of information on new materials and techniques are building suppliers, sales agents and trade publications.

18. The most important promotion techniques are word of mouth and advertising through the yellow pages.

19. The main problems for renovators are lack of work, material costs and lack of skilled labour. Problems differ somewhat by county with lack of work being a greater problem for firms other than those located in Halifax County.

D. Conclusions

The survey of homeowners conducted as part of this study vividly demonstrates that residential renovation makes up a considerable amount of all residential construction in Nova Scotia. Even though half of the work is performed by owners themselves, there is an obvious and significant market for the established renovation industry and despite the perceptions of the industry members, there is no indication that the market will decline.

Despite the degree of satisfaction reported by homeowners with the quality of work performed by members of the industry, it is also obvious that serious challenges remain to be overcome before the industry can operate at optimum efficiency. The reported low average unit value of work was held to contribute to the fragmentation of the industry and the proliferation of small firms. Industry members felt that this structural reality precluded the development of sophistication on the part of many firms in areas such as training in construction and management skills. These deficiencies were felt to be responsible for the low profit levels reported by many firms. The need for skilled labour capable of dealing with construction techniques and technologies in use over the last hundred years was particularly mentioned.

Many respondents to the renovators survey advocated higher levels of licensing for renovation contractors and more rigorous inspections of their work. A self-governing body along the lines of the Association of Professional Engineers was advocated by some.

Contractors appear to be ambivalent about the use of contracts and warranties. Those in support argued that the use of contracts should be binding on all firms. Those opposed to the use of mandatory contracts cited the lack of a universally accepted building code in the province.

Other possible improvements noted were the development of management training programs and/or a professional "accounting pool" available to small firms at reasonable rates. Similarly, the utility of a mechanism to provide timely and comprehensive information on new products and technologies was cited. These areas, the study concluded, could be fruitful ones to which the Nova Scotia Home Builder's Association might address itself.

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